



State of Arizona
Department of Education

Jaime A. Molera
Superintendent of
Public Instruction

Date: October 29, 2001

To: All School Districts and Charter Schools

From: Scott W. Thompson
Associate Superintendent for Finance and Information Systems

Re: Qualified Zone Academy Bonds (QZAB)

The Federal Taxpayer Relief Act of 1997 created the Qualified Zone Academy Bond Program. Under this program, state and local governments can issue Qualified Zone Academy Bonds at very low or even zero percent interest rates on behalf of eligible local educational agencies (LEA's) including eligible charter schools. Eligible charter schools may work with a local government that has the authority to issue debt. Under this program, a bond is defined as any obligation and is subsidized by the Federal government in the form of tax credits to bondholders. Please note that the QZAB is a type of bond and does not provide any additional bonding authority beyond what is allowed under existing State and local law.

Beginning in 1998, the State of Arizona has received allocations of funding for use in the QZAB Program. To date, the State of Arizona has been allocated \$33,958,000. These allocations were distributed on an annual basis:

Year	Allocation	Expiration
1998	\$10,094,000	December 31, 2001
1999	\$8,408,000	December 31, 2002
2000	\$8,816,000	December 31, 2002
2001	\$6,640,000	December 31, 2003

Of the eleven applications received to date, only five LEA's (totaling \$3,765,494) have successfully issued financing through the QZAB program. As a result \$6,328,506 in authorized allocation will expire on December 31, 2001. In an effort to take advantage of this funding before it expires, the Arizona Department of Education is working with the Arizona State Facilities Board (SFB) to issue QZAB's on a state level. This state level program would result in the SFB issuing approximately \$27 million in allocation on behalf of LEA's in Arizona. The result of a state level issuance of the QZAB program

will achieve two objectives: (1) to ensure \$6 million in QZAB allocation will be used before the expiration date of December 31, 2001; (2) to result in a savings to the State of Arizona of approximately \$15 million in interest, this savings will directly benefit schools and teachers statewide.

Because the SFB does not have the authority to work on behalf of the Charter Schools and to address any school district which may want to access this funding directly, over \$3 million in QZAB allocations will remain available.

LEA's must meet specific criteria to be successful in applying for the QZAB program. To qualify under this program, an LEA or its program must be: (1) located in an empowerment zone or an enterprise community or (2) have at least 35 percent of their students eligible for free and reduced lunch under the Federal School Lunch Act. Additionally, schools must work in partnership with the business community and obtain at least 10 percent contributions from the business community. Qualified Zone Academy Bond proceeds may be used for: (1) renovating school buildings; (2) purchasing equipment; (3) developing curricula; (4) training school personnel. However, issuing government entities and LEA's must ensure that the purposes for which the QZAB is issued conform to State and Local statutes regarding incurring indebtedness for that entity or LEA.

The deadline for individual application is February 20, 2002. Additional information and application materials are available on our web site at <http://www.ade.az.gov/schoolfinance/Memos/QZABPacket/>

It is important that applicants read all rules and regulations regarding this program. Once ADE has allocated the QZAB authority to a local government or an LEA, it is the responsibility of that entity and its partners to comply with all rules and regulations. At best, failure to comply may jeopardize the tax credit benefits to your investors. Please visit our web site for application and instructions.